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9 CHAIRPERSON JAMES: Thank you, I'm going to
10 call us back to order at this particular point in time.
11 And there's Ms. Paul, we can't start without you.
12 Welcome back. And I'll open the floor up to
13 Commissioners for questions and dialogue. And also to
14 panelists if you'd like to engage each other.

15 Commissioner Wilhelm.

16 COMMISSIONER WILHELM: I have a brief
17 comment, and two questions, just primarily though not
18 necessarily exclusively to Dr. Clotfelter. The comment
19 is this, you make this observation about the
20 regressivity of the implicit taxation that the lottery

1 represents, I take your point, although I'm sure I
2 don't grasp it in all it's fulsomeness, because I have
3 no economics training. But it's also fair to say, is
4 it not, that both governmentally and non-governmentally
5 we have all sorts of explicit and implicit taxation
6 that is regressive. As an example, the Social Security
7 tax because it's only applied on the first \$60 some odd
8 thousand of income, is surely regressive.

9 And so, the statement that you make about
10 the implicit, about the regressiveness of the implicit
11 taxation of the lottery is also a statement that could
12 be made about lots of other things in terms of what the
13 government has done. Wouldn't that be true? The sales
14 tax is certainly a highly regressive tax, for example
15 in most jurisdictions in this country.

16 DR. CLOTFELTER: Yeah, excise tax on
17 tobacco, alcohol, gasoline, are all regressive. The
18 payroll tax is still regressive even though it is
19 getting more proportional because of the limit going
20 up. So yes, you could say a number of things are

1 regressive. If you compared one against the other
2 though, it turns out that lottery implicit tax is kind
3 of the winner, head to head, against almost anything
4 else using more or less conventional measures of
5 regressivity. It's more regressive.

6 Maybe another way to say why is this
7 important, I think the policy question would be
8 something like this. Suppose you're a state that wants
9 to look at how it's taxing all of its citizens across
10 the board and you're interested in a distributional
11 equity. And you have a choice between raising the rate
12 of implicit tax on the lottery or doing any one of a
13 list of other things. If you chose the lottery as the
14 way to do it, it would hurt poor people compared to the
15 other things. That's really the only way to think
16 about it. Or the other way, and maybe if things are
17 flush, if we wanted to give a tax cut that we wanted to
18 benefit people at the lowest income, it would be hard
19 to find a tax cut that would help poor people more than

1 cutting the implicit tax on lotteries. That's the
2 sense in which it is useful.

3 COMMISSIONER WILHELM: That's interesting.
4 You're an economist and I'm not, I would have thought
5 for example that in states and or localities which
6 apply the sales tax to food and prescription medicines
7 and things like that, that that statement would be more
8 true of that.

9 DR. CLOTFELTER: You might be right about
10 food. In fact, I come from a state that is still
11 backward to have a little tax on food. And that's one
12 of the most regressive taxes. So if you put a food tax
13 up against the lottery that might be. And I don't know
14 what the answer on that would be.

15 COMMISSIONER WILHELM: And then, I wanted
16 to ask you whether or not there is in existence any
17 significant or any credible research on three aspects
18 of lotteries. One, whether or not beyond convenience
19 store jobs which are typically low wage and no benefit,
20 and perhaps a handful of administrative jobs, whether

1 or not the lottery, lotteries generally create any
2 significant number of quality jobs, whether there has
3 been research on that?

4 Secondly, whether there's been research on
5 whether lottery advertising over time produces
6 significant increases in lottery sales or not? I was
7 looking at some figures from the California Lottery
8 which would seem to an uneducated eye to suggest that
9 lottery advertising doesn't increase, or at least in
10 the California experience in recent years, hasn't
11 increased lottery revenue.

12 And thirdly, whether there's been any
13 research done on the impact of both, from a revenue
14 point of view and from a play point of view, and from
15 the kinds of people who do play of these new products
16 and online stuff and video lottery terminals and stuff
17 like that? The stuff that you said was oranges as
18 compared to apples.

19 DR. CLOTFELTER: The first question on,
20 does the lottery create quality jobs. I don't know any

1 particular evidence of it. If you don't have a job and
2 you get a lottery job, it's probably a quality job.
3 So, but I don't know of any evidence about the kind of
4 employment. If you're thinking about would it be good
5 to have jobs that create human capital or have spin
6 offs in other ways, it's a service industry and Rebecca
7 Paul would be, I mean she knows this industry in and
8 out. But my guess is I just don't know of any research
9 on it.

10 Does lottery advertising increase sales
11 over time, I would love to have her opinion of this. I
12 went in, very naively in, there was a lot about
13 marketing I had never heard of before I did this book,
14 and I learned about psychometric studies and focus
15 groups and target marketing, lots of things that are
16 used every day all over the country in private
17 industry, but now is applied to the state. And one
18 thing I discovered, and had I thought about it much, I
19 would have known, is that it's pretty hard to determine

1 whether any advertising affects the sales of any
2 product.

3 My impression is that most advertising that
4 we see is an attempt to garner a bigger share of an
5 existing market. So I want you to buy my soap not your
6 soap. If there were states that said we're not going
7 to do any advertising and then we compared those states
8 to the ones that do advertise, then we might be able to
9 make a determination. But pretty much all the states
10 are doing similar things, so it is pretty hard to find
11 the counterfactual, what would you compare it to.
12 Maybe you could look at advertising campaigns and see
13 what has happened to sales and so I'm sure Ms. Paul
14 has, knows about that, if I were running a lottery I
15 would darn well want to know the answer to that, if my
16 dollars are paying off.

17 And then as far as the impact of new
18 products, that's really a big, big issue. This is a
19 very dynamic industry. It's unlike most of the
20 products that we see. The products are developing

1 because of technology, because of changing legal
2 situation. So the line up of products is so different
3 than it was when I started looking at lotteries in
4 Massachusetts in 1972. Back at that point there were
5 only two games, I could go and buy a raffle ticket,
6 with a preprinted number, I didn't have any control
7 over what the number was, I just bought it and then
8 hoped that at the weekly drawing I won.

9 And the other one was this new scratch off
10 ticket that was really revolutionized, even though it
11 as a Georgia company that developed it, it was
12 Massawchusetts that really put the gilt on this
13 particular, that's G-I-L-T, on this product. But now,
14 we have lotto, we have Keno, numbers that are developed
15 in computer systems and now with video terminals and
16 Keno, the products are changing so much. So that's
17 where I would attribute much of the growth to. And
18 again, that's been a deliberate policy by the lottery
19 agencies in order to get more revenue, you develop

1 products that will appeal to people. Which makes sense
2 if that's what you're doing.

3 CHAIRPERSON JAMES: Before we move on to a
4 new line of questioning, I wanted to ask Ms. Paul if
5 she'd like to answer those same three questions. It
6 would be interesting to have your perspective.

7 MS. PAUL: I don't believe there are any
8 jobs, Commissioner Wilhelm, studies in terms of what
9 jobs have been created. When you talk about low level
10 convenience store clerks, what comes to my mind
11 immediately are certainly the 6,000 owners of retailer
12 locations in Georgia who have certainly benefitted.
13 I'll talk to convenience store owners who will say, you
14 know, my place of business would have gone out of
15 business had it not been for the lottery coming to
16 Georgia. So therefore, the lottery in Georgia has made
17 enough revenues for their individual stores to keep
18 them open. So in addition to providing jobs for
19 people actually working in the convenient stores,

1 certainly the owners and the managers have benefitted
2 as well.

3 I would guess an average lottery has maybe
4 300 employees. You know, multiply that by 37, 38
5 lotteries. Certainly in Georgia, the expansion of the
6 pre kindergarten program has provided for increased
7 spending in education across the board. So certainly
8 education dollars have benefitted. All of the
9 universities in Georgia have had expanded growth and
10 therefore, expanded opportunities for people in higher
11 learning to go to work.

12 So I am not aware of any studies, but those
13 are the things that came to my mind when you asked
14 those questions. And I don't remember the other two.

15 COMMISSIONER WILHELM: The second question
16 had to do with whether anybody had studied the
17 relationship between lottery advertising expenditures
18 and lottery revenues.

19 And the third was whether anybody had
20 studied the impact in a variety of ways of some of

1 these new technologies such as video lottery terminals,
2 et cetera.

3 MS. PAUL: Well, in terms of studying
4 advertising and its impact, there are some
5 jurisdictions, one in particular that comes to my mind
6 is one in Canada as well as a couple in the United
7 States that when legislative bodies cut advertising
8 budgets to save money, they then went back after a year
9 or two and put those dollars back in the budget.
10 Because the amount of dollars that they saved reduced
11 by tens of times those dollars, the amount of dollars
12 raised. So there was the belief certainly that it had
13 impact.

14 However, as I said earlier in terms of its
15 impact on play, I think it goes back to that choice,
16 what do you do in that convenience store with your
17 dollar, with your change. And again, in Georgia 75
18 percent of our tickets are sold in convenience stores,
19 so it's really the change that comes back from your
20 gas, and do you want to buy a Coke, a Slim Jim, or Mars

1 candy. So I mean, that's the choices that at least I
2 feel we compete against for your change in that
3 convenience store environment. But I'm not aware of
4 any studies that show that.

5 I do think you, at least it's my
6 understanding, may look at lottery advertising at a
7 later date. And certainly advertising experts could
8 tell you that, maybe.

9 CHAIRPERSON JAMES: Thank you.